

NEW GUIDELINES ON PRESCRIPTION FOR INSURERS AS SUBROGEEES

On August 14, 2019, in *Vicente Henson, Jr. v. UCPB General Insurance Co., Inc.*, (G.R. No. 223134) (*Henson*), the Supreme Court promulgated a new set of rules on the prescription for insurers who are subrogated to the rights of the insured. The Court revisited its ruling in *Vector Shipping Corporation v. American Home Assurance Company* (G.R. No., 159213, 3 July 2013) (*Vector*) and deemed it necessary to abandon the doctrine enunciated in that case.

In *Vector*, Vector Shipping Corporation (VSC) entered into a contract of affreightment with Caltex Philippines, Inc. (Caltex) for the transport of the latter's goods. Caltex insured its goods with American Home Assurance Company (American Home). During the transport, VSC's ship collided with another vessel and sank resulting to the total loss of Caltex's goods. American Home fully indemnified Caltex for its loss. Thus, American Home was subrogated to the rights of Caltex against VSC. The case reached the Supreme Court on the issue of whether the action of American Home against VSC had already prescribed. According to the Court, American Home's action against VSC was based on an obligation created by law and not by a written contract because the subrogation of American Home to the rights of Caltex is by express provision of Art. 2207 of the New Civil Code which states that when the insured has received indemnity from the insurer, the latter shall be subrogated to the rights of the insured against the wrongdoer. Hence, American Home may bring suit against VSC within ten (10) years from the time its cause of action accrued or when American Home indemnified Caltex pursuant to Art. 1142 of the New Civil Code.

However, in *Henson*, the Court clarified that it failed to discern in *Vector* that no new obligation was created between American Home and Vector for the reason that a subrogee only steps into the shoes of the subrogor; hence, the **subrogee-insurer only assumes the rights of the subrogor-insured based on the latter's original obligation with the debtor**. The rights of a subrogee cannot be superior to the rights which the subrogor possessed.

The legal effects of subrogation under Article 2207 of the New Civil Code are primarily between the subrogee-insurer and the subrogor-insured. Article 2207 provides that when the insurer indemnifies the insured for the latter's injury or loss

arising out of a wrong or breach of contract, the insurer is subrogated to the rights of the insured against the wrongdoer. The wrongdoer-debtor is a stranger to the juridical tie provided by Article 2207 because it is only bound by its original obligation with the creditor-insured. The cause of action against the wrongdoer-debtor, therefore, accrues at the time the wrongdoer-debtor breached its original obligation with the creditor-insured.

Following the principles of subrogation, the insurer only steps into the shoes of the insured. The indemnification of the insured by the insurer only allows the latter to be subrogated to the former's rights, and does not create a fresh period for the insurer to exercise the cause of action that the insured had against the wrongdoer. Thus, **for purposes of prescription, the subrogee-insurer inherits only the remaining period within which the insured may file an action against the wrongdoer.** Hence, the Court was constrained to abandon the ruling in *Vector* that an insurer may file an action against the wrongdoer within ten (10) year from the time the insurer indemnifies the insured.

The Court, however, clarified that the abandonment of the *Vector* doctrine should be **prospective** in application since judicial decisions applying or interpreting the laws or the Constitution, until reversed, form part of the legal system of the Philippines.

Ultimately, the Court set the following guidelines relative to the application of *Vector* and its ruling in *Henson* vis-a-vis the prescriptive period in cases where the insurer is subrogated to the rights of the insured against the wrongdoer **based on a quasi-delict**:

1. For actions of such nature that **have already been filed and are pending** before the courts at the time of the finality of *Henson*, the *rules on prescription prevailing at the time the action is filed* would apply. Particularly:
 - a. For cases filed by the subrogee-insurer **during the applicability of the Vector ruling** (*i.e.*, from *Vector's* finality on August 15, 2013 up until the finality of *Henson*), the prescriptive period is ten (10) years from the time of payment by the insurer to the insured, which gives rise to an obligation created by law.
 - b. For cases filed by the subrogee-insurer **prior to the applicability**

of the **Vector ruling** (*i.e.*, before August 15, 2013), the prescriptive period is four (4) years from the time the tort is committed against the insured.

2. For actions of such nature that have **not yet** been filed at the time of the finality of *Henson*:
 - a. For cases where the tort is committed and the consequent loss/injury against the insured occurred **prior to the finality of *Henson***, the subrogee-insurer is given a period not exceeding four (4) years from the time of the finality of *Henson* to file the action against the wrongdoer; **provided**, that in all instances, the total period to file such case shall not exceed ten (10) years from the time the insurer is subrogated to the rights of the insured.
 - b. For cases where the tort is committed and the consequent loss/injury against the insured occurred only **upon or after the finality of *Henson***, the *Vector* doctrine would not apply. The prescriptive period is four (4) years from the time the wrongdoer committed the tort against the insured.